

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Norway	County Dickinson
Audit Date 6/30/05	Opinion Date 10/06/05	Date Accountant Report Submitted to State: 11/08/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

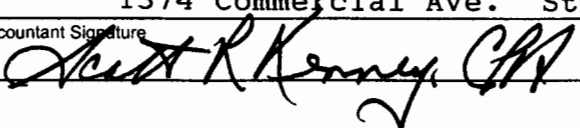
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Ste. 1		City Crystal Falls	State MI
Accountant Signature 		ZIP 49920	Date 10/6/05

CITY OF NORWAY
AUDITED FINANCIAL STATEMENTS
NORWAY, MICHIGAN

Fiscal Year Ended June 30, 2005

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SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, Michigan 49870

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Norway, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2005.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Norway, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

October 6, 2005

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 6.4% from a year ago - decreasing from \$17.081 million to \$15.986 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$1.132 million during the year (12.3% decrease). This is attributed to an increase in retiree health benefit costs, pension obligations, street construction projects, and a decrease in State Revenue Sharing Payments. The business-type activities experienced a \$37,000 increase in net assets, primarily as a result of charge increases approximating operating cost increases. A substantial increase in purchased power occurred during the year but was offset by an increase in charges. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 2,801	\$ 1,875	\$ 724	\$ 518	\$ 3,525	\$ 2,393
Noncurrent Assets	<u>14,077</u>	<u>14,720</u>	<u>13,692</u>	<u>14,219</u>	<u>27,769</u>	<u>28,939</u>
Total Assets	\$ 16,878	\$ 16,595	\$ 14,416	\$ 14,737	\$ 31,294	\$ 31,332
Long-Term Debt Outstanding	\$ 8,375	\$ 7,110	\$ 5,464	\$ 5,978	\$ 13,839	\$ 13,088
Other Liabilities	<u>496</u>	<u>346</u>	<u>973</u>	<u>817</u>	<u>1,469</u>	<u>1,163</u>
Total Liabilities	<u>\$ 8,871</u>	<u>\$ 7,456</u>	<u>\$ 6,437</u>	<u>\$ 6,795</u>	<u>\$ 15,308</u>	<u>\$ 14,251</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 10,062	\$ 11,396	\$ 7,201	\$ 7,430	\$ 17,263	\$ 18,826
Restricted	38	38	763	216	801	254
Unrestricted	<u>(2,093)</u>	<u>(2,295)</u>	<u>15</u>	<u>296</u>	<u>(2,078)</u>	<u>(1,999)</u>
Total Net Assets	\$ 8,007	\$ 9,139	\$ 7,979	\$ 7,942	\$ 15,986	\$ 17,081

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Unrestricted net assets (deficit)—the part of net assets that can be used to finance day to day operations, increased by \$202,000 for the governmental activities. This represents a decrease in the deficit of approximately 8.8%. The current level of unrestricted net assets for our governmental activities stands in a deficit position at \$2.093 million.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 183	\$ 389	\$ 4,592	\$ 4,454	\$ 4,775	\$ 4,843
Operating Grants and Contributions	348	335	0	0	348	335
Capital Grants and Contributions	0	243	0	0	0	243
General Revenues						
Property Taxes	\$ 825	\$ 771	\$ 0	\$ 0	\$ 825	\$ 771
State-Shared Revenues	327	332	0	0	327	332
Unrestricted Investment Earnings	61	38	4	5	65	43
Fines and forfeitures	5	7	0	0	5	7
Sale of land	(5)	134	0	0	(5)	134
Transfers and Other Revenue	<u>557</u>	<u>449</u>	<u>(408)</u>	<u>(297)</u>	<u>149</u>	<u>152</u>
Total Revenues	\$ 2,301	\$ 2,698	\$ 4,188	\$ 4,162	\$ 6,489	\$ 6,860
Program Expenses						
General Government	\$ 1,255	\$ 1,010	\$ 0	\$ 0	\$ 1,255	\$ 1,010
Public Safety	678	674	0	0	678	674
Public Works	1,286	2,240	0	0	1,286	2,240
Recreation & Culture	29	24	0	0	29	24
Interest on Long-Term Debt	185	176	0	0	185	176
Oak Crest Golf Course	0	0	467	422	467	422
Public Utilities	<u>0</u>	<u>0</u>	<u>3,683</u>	<u>3,433</u>	<u>3,683</u>	<u>3,433</u>
Total Expenses	\$ 3,433	\$ 4,124	\$ 4,150	\$ 3,855	\$ 7,583	\$ 7,979
Change in Net Assets	\$(1,132)	\$(1,426)	\$ 38	\$ 307	\$(1,094)	\$(1,119)

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The City's net assets remain at a very low level. This can be attributed to aggressive spending in prior years using primarily debt financing without increasing revenues. Some new businesses have located in the City and construction continued at a steady pace this past year.

Governmental Activities

The City's total governmental revenues decreased by approximately \$397,000 due to a federal grant for road construction of \$244,000 and the sale of property totaling \$134,000 during the 2003-2004 year.

Cash expenditures decreased by more than \$600,000 during the year. This was primarily due to the street construction projects undertaken during the 2003-2004 year with only small projects completed during the current year.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television and internet services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City owns and operates Oak Crest Golf Course in conjunction with Oak Crest Golf Club, Inc. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues increase while the expenses decreased primarily due to a continued increase in the number of internet customers with a small marginal cost factor. The Electric Fund saw its revenues decrease due to a decrease in power sold and the absence of an insurance claim that was received in the 2003-2004 year. Expenditures in the Electric Fund increased slightly with a large increase in the power purchased from WE Energies. This is attributable to rate increases that are substantially larger than the rate of inflation. The Golf Fund realized an increase in income with revenue sharing formulas with the component unit having been changed repeatedly over the past several years and operating costs continuing to rise generating the need to continue to transfer funds to cover costs. The Water Fund revenues remained constant with the prior year while operating costs continued to rise resulting in a larger loss during the 2004-2005 year. The Sewer Fund revenues decreased during the year while expenses increased. This resulted in an operating loss during the year following a small profit in the 2003-2004 year.

The City's Funds

Analysis of the City's major funds begins on page 13, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2004-2005 include the General Fund, Downtown Development Authority, Capital Projects and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. The most significant revenue changes were in State Shared Revenues which was decreased by \$14,000 due to a drop in payments from the State of Michigan and Interest which was decreased because of continued decline in interest rates and the consumption of cash to pay for ongoing commitments. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$31 million invested in a broad range of capital assets that are being systematically depreciated over the estimated useful lives of the various assets. These include snow removal equipment, police and fire equipment, land, buildings, community television/internet system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2005 fiscal year exceeded \$8.6 million. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures and previously approved millage designated for roads and fire equipment. Because of the impact of Proposal A and a precarious cash position, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The City has borrowed the necessary funds during the 2004-2005 year to complete the "Streetscape" project on Main Street. This work commenced during 2005-2006 year and the necessary expenditures were budgeted accordingly.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2005

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 2,071,115	\$ 152,587	\$ 2,223,702	\$ 87,590
Investments	190,449	0	190,449	0
Receivables - net	191,952	408,426	600,378	1,915
Inventory	7,866	131,868	139,734	82,700
Prepaid expenses	28,098	30,901	58,999	0
Other	21,113	0	21,113	0
Internal balances	290,572	0	290,572	0
TOTAL CURRENT ASSETS	\$ 2,801,165	\$ 723,782	\$ 3,524,947	\$ 172,205
RESTRICTED ASSETS - Cash and equivalents	\$ 2,311	\$ 600,347	\$ 602,658	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 14,074,996	\$ 12,929,604	\$ 27,004,600	\$ 0
Other	0	162,579	162,579	0
TOTAL NON-CURRENT ASSETS	\$ 14,074,996	\$ 13,092,183	\$ 27,167,179	\$ 0
TOTAL ASSETS	\$ 16,878,472	\$ 14,416,312	\$ 31,294,784	\$ 172,205
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 69,748	\$ 148,420	\$ 218,168	\$ 25,895
Accrued and other liabilities	238,829	288,883	527,712	41,733
Interprogram payables	0	271,271	271,271	0
Current part of non-current liabilities	184,021	264,280	448,301	0
TOTAL CURRENT LIABILITIES	\$ 492,598	\$ 972,854	\$ 1,465,452	\$ 67,628
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 2,311	\$ 410,471	\$ 412,782	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 98,066	\$ 0	\$ 98,066	\$ 0
Bonds payable	3,829,002	0	3,829,002	0
Revenue bonds payable	0	5,053,799	5,053,799	0
Unfunded accrued actuarial pension liability	4,448,926	0	4,448,926	0
TOTAL NON-CURRENT LIABILITIES	\$ 8,375,994	\$ 5,053,799	\$ 13,429,793	\$ 0
TOTAL LIABILITIES	\$ 8,870,903	\$ 6,437,124	\$ 15,308,027	\$ 67,628
NET ASSETS				
Invested in capital assets, net of related debt	\$ 10,061,973	\$ 7,201,054	\$ 17,263,027	\$ 0
Restricted for				
Prepaid expenses	28,098	30,901	58,999	12,925
Inventory	7,866	131,868	139,734	0
Debt service	2,311	410,471	412,782	0
Repair and reconstruction	0	189,876	189,876	0
Unrestricted	(2,092,679)	15,018	(2,077,661)	91,652
TOTAL NET ASSETS	\$ 8,007,569	\$ 7,979,188	\$ 15,986,757	\$ 104,577

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Governmental Activities							
General government	\$ 1,254,824	\$ 0	\$ 0	\$ 0	\$ (1,254,824)	\$ (1,254,824)	
Public safety	677,428	0	0	0	(677,428)	(677,428)	
Public works	1,285,938	183,232	348,109	0	(754,597)	(754,597)	
Recreation and culture	29,462	0	0	0	(29,462)	(29,462)	
Interest and fees on long-term debt	185,254	0	0	0	(185,254)	(185,254)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,432,906	\$ 183,232	\$ 348,109	\$ 0	\$ (2,901,565)	\$ (2,901,565)	
Business-Type Activities							
Television	\$ 741,666	\$ 716,361	\$ 0	\$ 0	\$ (25,305)	\$ (25,305)	
Electric	1,793,580	2,342,224			548,644	548,644	
Oak Crest Golf Course	467,886	418,100			(49,786)	(49,786)	
Water	636,382	644,751			8,369	8,369	
Sewer	510,219	470,519	0	0	(39,700)	(39,700)	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 4,149,733	\$ 4,591,955	\$ 0	\$ 0	\$ 442,222	\$ 442,222	
Component Unit - Oak Crest Golf Club, Inc.	\$ 323,337	\$ 347,216	\$ 0	\$ 0			\$ 23,879
GENERAL REVENUES							
Property taxes					\$ 824,952	\$ 0	\$ 824,952
State shared revenues and grants					327,379	0	327,379
Unrestricted investments earnings					61,294	3,759	65,053
Fines and forfeitures					5,225	0	5,225
Other					84,490	0	84,490
SPECIAL ITEM-Gain (loss) on sale of land					(5,000)	0	(5,000)
TRANSFERS					471,480	(408,231)	63,249
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ 1,769,820	\$ (404,472)	\$ 1,365,348
CHANGE IN NET ASSETS							
Net assets - beginning					\$ (1,131,745)	\$ 37,750	\$ (1,093,995)
					9,139,314	7,941,438	17,080,752
NET ASSETS - ENDING					\$ 8,007,569	\$ 7,979,188	\$ 15,986,757
							\$ 104,577

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2005

	GENERAL FUND	DOWNTOWN DEVELOPMENT AUTHORITY	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and equivalents	\$ 273,462	\$ 359,400	\$ 1,203,952	\$ 234,301	\$ 2,071,115
Investments	190,449	0	0	0	190,449
Taxes and accounts receivable	25,614	0	0	0	25,614
Due from other funds	290,572	0	0	0	290,572
Due from other governmental units	102,386	0	0	63,952	166,338
Inventory	7,866	0	0	0	7,866
Prepaid expenses	28,098	0	0	0	28,098
Bond discount	0	21,113	0	0	21,113
Restricted assets	0	2,311	0	0	2,311
TOTAL ASSETS	\$ 918,447	\$ 382,824	\$ 1,203,952	\$ 298,253	\$ 2,803,476
LIABILITIES					
Accounts payable	\$ 33,931	\$ 225	\$ 28,244	\$ 7,348	\$ 69,748
Accrued payroll expense	108,516	0	0	2,394	110,910
Accrued taxes and withholdings	31,433	0	0	183	31,616
Due to other funds	0	19,300	0	0	19,300
Accrued interest	0	7,617	0	0	7,617
Other liabilities	1,247	46,879	0	0	48,126
TOTAL LIABILITIES	\$ 175,127	\$ 74,021	\$ 28,244	\$ 9,925	\$ 287,317
FUND BALANCES					
Reserved for					
Prepaid expenses	\$ 28,098	\$ 0	\$ 0	\$ 0	\$ 28,098
Inventory	7,866	0	0	0	7,866
Bond discount	0	2,311	0	0	2,311
Unreserved	707,356	306,492	1,175,708	288,328	2,477,884
TOTAL FUND EQUITY	\$ 743,320	\$ 308,803	\$ 1,175,708	\$ 288,328	\$ 2,516,159
TOTAL LIABILITIES AND FUND EQUITY	\$ 918,447	\$ 382,824	\$ 1,203,952	\$ 298,253	\$ 2,803,476

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balance - total governmental funds	\$ 2,516,159
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	14,074,996
Accrued interest payable not recorded on governmental financial statements	(23,571)
Long term liabilities:	
Bonds not due and payable with the current period and not reported in the funds	(4,013,023)
Accumulated employee vacation and personal pay not used in current period	(98,066)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(4,448,926)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>8,007,569</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
 ALL GOVERNMENTAL FUND TYPES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 Year ended June 30, 2005

	<u>GENERAL</u>	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES					
General property taxes	\$ 612,265	\$ 212,687	\$ 0	\$ 0	\$ 824,952
State shared revenues and grants	327,379	0	0	348,109	675,488
Charges for services	183,232	0	0	0	183,232
Licenses and permits	0	0	0	0	0
Fines and forfeitures	5,225	0	0	0	5,225
Interest and rentals	182,044	3,217	14,832	1,961	202,054
Bond proceeds	0	900,000	0	0	900,000
Other	71,182	0	61,555	6,753	139,490
TOTAL REVENUES	\$ 1,381,327	\$ 1,115,904	\$ 76,387	\$ 356,823	\$ 2,930,441
EXPENDITURES					
General government	\$ 608,948	\$ 0	\$ 0	\$ 0	\$ 608,948
Public safety	619,638	0	0	0	619,638
Public works	494,617	12,773	0	266,797	774,187
Recreation	29,462	0	0	0	29,462
Debt service	0	143,972	0	198,649	342,621
Capital outlay	20,628	0	57,141	92,875	170,644
TOTAL EXPENDITURES	\$ 1,773,293	\$ 156,745	\$ 57,141	\$ 558,321	\$ 2,545,500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (391,966)	\$ 959,159	\$ 19,246	\$ (201,498)	\$ 384,941
OTHER FINANCING SOURCES (USES)					
Transfer from other funds	\$ 509,391	\$ 0	\$ 891,000	\$ 247,878	\$ 1,648,269
Transfer to other funds	(131,845)	(910,300)	(134,645)	0	(1,176,790)
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ (14,420)	\$ 48,859	\$ 775,601	\$ 46,380	\$ 856,420
Fund balance - beginning	757,740	259,944	400,107	241,948	1,659,739
FUND BALANCE - ENDING	\$ 743,320	\$ 308,803	\$ 1,175,708	\$ 288,328	\$ 2,516,159

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

Net change in fund balance - total governmental funds	\$ 856,420
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	(584,745)
Basis of property sold during the year not recorded as revenue in Statement of Activities	(60,000)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	180,938
Bond proceeds recorded as a revenue in governmental funds and as a liability in Statement of Activities	(900,000)
Increase in accrued interest not recorded as expenditure in governmental funds	(23,571)
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	32,169
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(632,956)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(1,131,745)</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2005

		ASSETS							
		TELEVISION UTILITY	ELECTRIC UTILITY	OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL		
Current Assets:									
Cash and equivalents	\$	0	\$ 152,287		0	\$	0	\$	152,287
Accounts receivable		69,247	228,225		61,809	48,043			408,426
Due from other funds		0	0		0	0			0
Due from other governmental units		0	0		0	0			0
Inventory		0	93,906		29,773	8,189			131,868
Prepaid expenses		4,329	15,323		3,543	5,006			30,901
TOTAL CURRENT ASSETS	\$	73,576	\$ 489,741		95,125	\$ 61,238		\$	723,782
Restricted Assets	\$	0	\$ 213,000		371,612	\$ 15,735		\$	600,347
Property, Plant and Equipment:									
Utility plant and equipment	\$	978,635	\$ 11,506,302		6,014,498	\$ 2,018,474		\$	22,557,603
Less accumulated depreciation		(754,531)	(5,047,613)		(1,794,369)	(819,188)			(9,627,999)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$	224,104	\$ 6,458,689		4,220,129	\$ 1,199,286		\$	12,929,604
Other Assets	\$	0	\$ 158,473		4,106	\$	0	\$	162,579
TOTAL ASSETS	\$	297,680	\$ 7,319,903		4,690,972	\$ 1,276,259		\$	14,416,312
LIABILITIES									
Current Liabilities:									
Accounts payable	\$	35,399	\$ 81,643		9,628	\$ 5,979		\$	148,420
Salaries and wages payable		3,280	13,647		7,107	7,793			59,743
Accrued taxes and withholdings		584	11,195		936	2,318			19,332
Accrued interest		0	31,053		27,994	0			59,047
Accrued benefits		4,350	40,383		5,132	22,507			100,659
Capital lease		0	0		0	0			0
Due to other funds		63,410	0		0	196,971			271,271
Due to other governmental units		0	0		0	0			0
Security deposits		0	49,659		0	0			49,659
Deferred revenue		443	0		0	0			443
Current portion of long term liabilities		0	185,000		67,000	12,280			264,280
TOTAL CURRENT LIABILITIES	\$	107,466	\$ 412,580		117,797	\$ 247,848		\$	972,854
Long Term Liabilities	\$	0	\$ 1,945,000		3,332,000	\$ 187,270		\$	5,464,270
TOTAL LIABILITIES	\$	107,466	\$ 2,357,580		3,449,797	\$ 435,118		\$	6,437,124
NET ASSETS									
Invested in capital assets - net of related debt	\$	224,104	\$ 4,328,689		821,129	\$ 999,736		\$	7,201,054
Restricted for debt service		0	213,000		181,736	15,735			410,471
Restricted for repairs and reconstruction		0	0		189,876	0			189,876
Unrestricted		(33,890)	420,634		48,434	(174,330)			177,787
TOTAL NET ASSETS	\$	190,214	\$ 4,962,323		1,241,175	\$ 841,141		\$	7,979,188

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2005

	TELEVISION UTILITY	ELECTRIC UTILITY	OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL
OPERATING REVENUES						
User charges	\$ 715,488	\$ 2,312,855	\$ 412,909	\$ 604,158	\$ 470,519	\$ 4,515,929
Reimbursements	0	29,369	0	0	0	29,369
Other	873	0	5,191	40,593	0	46,657
TOTAL OPERATING REVENUES	\$ 716,361	\$ 2,342,224	\$ 418,100	\$ 644,751	\$ 470,519	\$ 4,591,955
OPERATING EXPENSES						
Generation, transmission, distribution and maintenance	\$ 623,388	\$ 1,346,878	\$ 394,627	\$ 329,214	\$ 435,719	\$ 3,129,826
Depreciation	118,278	309,751	20,985	133,762	52,638	635,414
TOTAL OPERATING EXPENSES	\$ 741,666	\$ 1,656,629	\$ 415,612	\$ 462,976	\$ 488,357	\$ 3,765,240
OPERATING INCOME (LOSS)	\$ (25,305)	\$ 685,595	\$ 2,488	\$ 181,775	\$ (17,838)	\$ 826,715
NON-OPERATING GAINS (LOSSES)						
Interest	\$ 0	\$ 1,379	\$ 26	\$ 2,354	\$ 0	\$ 3,759
Bond interest and fee payments	0	(115,035)	0	(162,858)	(10,668)	(288,561)
Bond discount amortization	0	(21,916)	0	(342)	0	(22,258)
Grant amortization	0	0	(52,274)	(10,206)	(11,194)	(73,674)
NON-OPERATING TRANSFERS						
From other funds	\$ 0	\$ 11,676	\$ 0	\$ 9,196	\$ 20,988	\$ 41,860
To other funds	(40,602)	(186,676)	(10,000)	(109,054)	(103,759)	(450,091)
NET INCOME (LOSS)	\$ (65,907)	\$ 375,023	\$ (59,760)	\$ (89,135)	\$ (122,471)	\$ 37,750
Net assets - beginning	256,121	4,587,300	804,095	1,330,310	963,612	7,941,438
NET ASSETS - ENDING	\$ 190,214	\$ 4,962,323	\$ 744,335	\$ 1,241,175	\$ 841,141	\$ 7,979,188

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended June 30, 2005

	TELEVISION UTILITY	ELECTRIC UTILITY	OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 711,203	\$ 2,303,302	\$ 417,529	\$ 642,803	\$ 468,497	\$ 4,543,334
Insurance proceeds	0	29,369	0	0	0	29,369
Payments to suppliers	(489,971)	(688,797)	(123,994)	(132,405)	(185,883)	(1,621,050)
Payments to or on behalf of employees	(192,871)	(655,878)	(257,394)	(197,608)	(255,841)	(1,559,592)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 28,361	\$ 987,996	\$ 36,141	\$ 312,790	\$ 26,773	\$ 1,392,061
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Transfer from (to) other funds	(40,602)	(175,000)	(10,000)	(99,858)	(82,771)	(408,231)
Loans from (repaid to) other funds	33,759	(193,368)	(14,417)	0	77,042	(96,984)
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (6,843)	\$ (368,368)	\$ (24,417)	\$ (99,858)	\$ (5,729)	\$ (505,215)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal and interest paid on capital debt	0	\$ (290,035)	0	(227,858)	(19,878)	(537,771)
Purchases of capital assets	(21,518)	(196,185)	(11,750)	0	(1,166)	(230,619)
Funding of restricted accounts	0	17,500	0	8,055	0	25,555
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (21,518)	\$ (468,720)	\$ (11,750)	\$ (219,803)	\$ (21,044)	\$ (742,835)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest earned	0	1,379	26	2,354	0	3,759
Cash and equivalents - beginning	0	152,287	0	(4,517)	0	147,770
	0	0	300	4,517	0	4,817
CASH AND EQUIVALENTS - ENDING	\$ 0	\$ 152,287	\$ 300	\$ 0	\$ 0	\$ 152,587
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (25,305)	\$ 685,595	\$ 2,488	\$ 181,775	\$ (17,838)	\$ 826,715
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	118,278	309,751	20,985	133,762	52,638	635,414
Change in Assets and Liabilities						
Receivables - net	(5,158)	(9,553)	(571)	(1,948)	(2,022)	(19,252)
Inventory	0	(32,165)	0	(1,000)	(2,584)	(35,749)
Prepaid expenses	(1,696)	(154)	(303)	184	(1,076)	(3,045)
Accounts payable	(18,755)	50,806	3,624	6,693	(2,328)	40,040
Accrued payroll expense	(1,005)	(6,922)	17,027	1,382	236	10,718
Accrued taxes and withholdings	256	2,087	3,466	498	1,739	8,046
Accrued interest	0	(3,261)	0	(300)	0	(3,561)
Accrued benefits	(38,301)	(19,173)	(10,575)	(8,256)	(1,992)	(78,297)
Customer deposits	0	10,985	0	0	0	10,985
Deferred revenue	47	0	0	0	0	47
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 28,361	\$ 987,996	\$ 36,141	\$ 312,790	\$ 26,773	\$ 1,392,061

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

Cash and equivalents	\$ <u>0</u>
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LIABILITIES

Due to other funds	\$ 0
Due to other governmental units	<u>0</u>

TOTAL LIABILITIES	\$ <u>0</u>
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Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF CHANGES IN NET ASSETS
Year ended June 30, 2005

	BALANCE 30-Jun-04	ADDITIONS	DEDUCTIONS	BALANCE 30-Jun-05
ASSETS				
Cash and equivalents	\$ <u>2,117</u>	\$ <u>1,397,094</u>	\$ <u>1,399,211</u>	\$ <u>0</u>
 LIABILITIES				
Due to other funds	\$ 444	\$ 234,900	\$ 235,344	\$ 0
Due to other governmental units	<u>1,673</u>	<u>1,162,194</u>	<u>1,163,867</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>2,117</u>	\$ <u>1,397,094</u>	\$ <u>1,399,211</u>	\$ <u>0</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

Current Assets:

Cash and equivalents	\$ 87,590
Accounts receivable	1,915
Inventory	<u>82,700</u>

TOTAL ASSETS \$ 172,205

LIABILITIES

Current Liabilities:

Accounts payable	\$ 25,895
Gift certificates payable	22,828
Accrued taxes and withholdings	8,758
Other accrued liabilities	<u>10,147</u>

TOTAL LIABILITIES \$ 67,628

Net assets:

Restricted	\$ 12,925
Unrestricted	<u>91,652</u>

TOTAL NET ASSETS \$ 104,577

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

OPERATING REVENUES - User charges	\$	347,216
OPERATING EXPENSES - General operations and maintenance		<u>323,337</u>
OPERATING INCOME	\$	23,879
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$	667
Miscellaneous income		55,784
Transfer from other fund		10,000
Transfer to other fund		<u>(73,249)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$	(6,798)
NET INCOME	\$	17,081
Net assets - beginning		<u>87,496</u>
NET ASSETS - ENDING	\$	<u><u>104,577</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2005

OPERATING ACTIVITIES

Operating income (loss)	\$ 17,081
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,815)
(Increase) decrease in inventory	2,332
Increase (decrease) in accounts payable	8,303
Increase (decrease) in gift certificates payable	1,849
Increase (decrease) in accrued taxes and withholdings	1,790
Increase (decrease) in other accrued liabilities	<u>468</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,008
Cash and equivalents - beginning	<u>57,582</u>
CASH AND EQUIVALENTS - ENDING	<u><u>87,590</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Norway (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

BLENDED COMPONENT UNITS

The Norway Building Authority was established to finance the renovation, construction and equipping of the clubhouse at the Oak Crest Golf Course. All of the activity of the fund which consists solely of the debt service payments are transferred to the Debt Service Fund from the Oak Crest Golf Course, Inc. who is primarily responsible for the debt service payments. As such, the receipts and payments are recorded in the Debt Service Fund.

The Norway Utility Authority was established as a joint venture with the Township of Norway to provide a financing for upgrades to the sewer system to the residents of the two jurisdictions. The City's portion of the debt is recorded on the records of the Sewer Fund and the Township payments are recorded as contributions and the debt services payments are recorded in their entirety within the fund.

Downtown Development Authority - The Downtown Development Authority is governed by a board which has been appointed by the City Council. For financial reporting purposes, the Downtown Development Authority is reported in a separate Special Revenue Fund.

Museum Fund - The Museum Fund is governed by a board that is appointed by the City Council. For financial reporting purposes, the Museum Fund is reported in a separate Special Revenue Fund.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Norway, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

OAK CREST GOLF CLUB, INC. - The Oak Crest Golf Club is governed by a separate commission that is elected by the membership. While the City Council sets membership fees and can limit membership totals, the Council does not approve budgets or expenses. Complete audited financial statements are available at the Oak Crest Golf Club in Norway, Michigan and the City Hall.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on July 1 are payable in one installment by August 15 without penalty. The City bills and collects its own property taxes and also taxes for Dickinson County, the local school district and the intermediate school district. Collections and remittances of county and school taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 14.8942 mills generating net tax collections of \$612,265 recorded in the general fund and \$201,488 in the Downtown Development Authority.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Downtown Development Authority accounts for the receipts and expenditures associated with improvements to the designated Tax Incremental Financing District.

The Capital Project Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the activities of the Oak Crest Golf Course.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Golf Course	15 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General-Mayor/Council/Elections	\$ 75,339	\$ 74,474	\$ 865	1
General-Public Safety	531,079	476,369	54,710	11
General-Parks and Recreation	29,462	20,876	8,586	41
General-Transfers	131,845	127,400	4,445	4
Capital Projects-Transfers	134,645	86,100	48,545	56
Major Streets-Construction	54,391	0	54,391	~
Major Streets-Route Maintenance	76,370	45,379	30,991	68
Major Streets-Winter Maintenance	57,355	51,326	6,029	12
Local Streets - Construction	10,850	0	10,850	~

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess of Expenditures Over Appropriations In Budgetary Funds (continued)

Fund/Activity	Actual	Budget	Variance	%
Local Streets/Route Maintenance	\$ 59,196	\$ 34,692	\$ 24,504	71
Local Streets/Winter Maintenance	33,539	29,952	3,587	12
Museum	27,634	25,000	2,634	11

NOTE B - ACCUMULATED FUND DEFICITS

The City has no accumulated fund balance/retained earnings deficits as of June 30, 2005.

NOTE C - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$2,826,061. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 219,549
Uninsured and collateralized	0
Uninsured, uncollateralized	<u>2,606,512</u>
 TOTAL BANK BALANCE	 <u><u>\$ 2,826,061</u></u>

NOTE D - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in Certificates of Deposit, various short term notes and bonds and a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$190,449 as of the June 30, 2005, and expects to receive an ongoing return of 12% per annum.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE E - PLANT AND EQUIPMENT

A summary of the proprietary fund type property, plant and equipment as of June 30, 2005 is as follows:

	<u>Television Fund</u>	<u>Electric Fund</u>	<u>Golf Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Balance, 7/1	\$ 957,117	\$11,310,717	\$ 2,027,944	\$6,014,498	\$ 2,017,306
Additions	<u>21,518</u>	<u>195,585</u>	<u>11,750</u>	<u>0</u>	<u>1,168</u>
Balance, 6/30	<u>\$ 978,635</u>	<u>\$11,506,302</u>	<u>\$ 2,039,694</u>	<u>\$6,014,498</u>	<u>\$ 2,018,474</u>
Accumulated Depreciation	<u>\$ 754,531</u>	<u>\$ 5,047,613</u>	<u>\$ 1,212,298</u>	<u>\$1,794,369</u>	<u>\$ 819,188</u>

Depreciation of all fixed assets used is charged proportionally to contributed capital and to expense of operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of the assets vary from five (5) to fifty (50) years.

NOTE F - EMPLOYEE RETIREMENT

The City of Norway contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with full benefits.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.5% of final average compensation for their last three years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE F - EMPLOYEE RETIREMENT (CONTINUED)

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 7,815,714
Terminated employees not yet receiving benefits	46,446
Non-vested terminated employees	4,977
Current employees:	
Accumulated employee contributions including allocated investment income	790,076
Employer financed	<u>3,391,542</u>
Total Actuarial Liability	\$ 12,048,755
Net assets available for benefits, at actuarial value (Market Value is \$7,418,339)	<u>7,599,829</u>
Unfunded (overfunded) actuarial accrued liability	\$ 4,448,926

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	July 1, 2006
Annual required contributions (ARC)	\$ 350,544
Amortization factor used	0.053632

NOTE G - COMPENSATED ABSENCES

The various contracts and agreements covering the City's personnel allow for vesting and/or accumulation of sick and vacation pay as follows:

Sick Leave - Earned at the rate of various days per year with an accumulation limit of 120 and a 35% vesting feature for AFSCME and AFL-CIO and a 40% vesting feature for IBEW - Supervisory and 150 days and a 35% vesting feature for IBEW - Electrical.

Vacation Leave (Administration) - unlimited accumulation of unused days with 100% vesting.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE G - COMPENSATED ABSENCES (CONTINUED)

Those amounts required to be accrued have been recorded in the various funds as follows:

	<u>Amount</u>
General Fund (current)	\$ 8,296
Oak Crest Golf Course	28,286
Electric Utility	40,383
Water Utility	5,129
Sewer Utility	22,507
Television Utility	4,350

NOTE H - LONG TERM DEBT

NORWAY BUILDING AUTHORITY

The Norway Building Authority originally issued \$850,000 of revenue bonds during 1993 for the construction of a new golf clubhouse. The bonds are a primary obligation of the Norway Building Authority with the City being secondarily liable. Payment of the bonds on September 1, 1993 and runs to September 1, 2014, with an interest rate varying from 5.75% to 8%.

The bonds were refinanced in September, 2003 in the amount of \$615,000 plus a three percent premium of \$18,450. Semi-annual payments of \$36,625 are due March 1 and September 1 through 2014.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	49,021	24,228	73,249
2006-2007	51,196	22,053	73,249
2007-2008	53,468	19,781	73,249
2008-2009	55,842	17,407	73,249
2009-2010	58,320	14,929	73,249
2010-ON	<u>296,177</u>	<u>33,446</u>	<u>329,623</u>
TOTALS	\$ 564,024	\$ 131,844	\$ 695,868

DOWNTOWN DEVELOPMENT AUTHORITY

The Downtown Development Authority originally issued \$400,000 of revenue bonds for the development of the downtown area. Payment of the bonds begin in 1996 and run to 2005, with interest rates varying from 6.4% to 7.4%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE H - LONG TERM DEBT

DOWNTOWN DEVELOPMENT AUTHORITY (CONTINUED)

The bonds were sold in June, 1994 in the amount of \$400,000. Semi-annual payments are due on June 1 and December 1 through 2005.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	\$ 70,000	\$ 2,380	\$ 72,380

DOWNTOWN DEVELOPMENT AUTHORITY

The Downtown Development Authority issued \$995,000 of general obligation limited tax development bonds on April 1, 2001, for the development of the downtown area. Payment of the bonds begin in 2001 and run to 2023, with interest rates varying from 4.5% to 5.3%.

The bonds were originally sold in March, 2001 in the amount of \$995,000. Semi-annual payments are due December 1 and June 1 through 2023.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	15,000	48,825	63,825
2006-2007	25,000	48,150	73,150
2007-2008	30,000	47,025	77,025
2008-2009	35,000	45,675	80,675
2009-2010	35,000	44,100	79,100
2010-ON	<u>825,000</u>	<u>329,068</u>	<u>1,154,068</u>
TOTALS	\$ 965,000	\$ 562,843	\$ 1,527,843

DOWNTOWN DEVELOPMENT AUTHORITY

The Downtown Development Authority issued \$900,000 of general obligation limited tax development bonds on June 1, 2005, for the development of the downtown area. Payment of the bonds begin in 2005 and run to 2024, with interest rates varying from 3.5% to 5.0%.

The bonds were originally sold in June, 2005 in the amount of \$900,000 less a one percent discount of \$9,000. Semi-annual payments are due December 1 and June 1 through 2024.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE H - LONG TERM DEBT

DOWNTOWN DEVELOPMENT AUTHORITY (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	0	37,820	37,820
2006-2007	10,000	37,645	47,645
2007-2008	15,000	37,207	52,207
2008-2009	15,000	36,683	51,683
2009-2010	20,000	36,070	56,070
2010-ON	<u>840,000</u>	<u>316,095</u>	<u>1,156,095</u>
TOTALS	\$ 900,000	\$ 501,520	\$ 1,401,520

FIRE HALL BONDS

The Norway Building Authority issued \$680,000 of bonds which were sold entirely to the Rural Development on May 17, 2001. The proceeds were used to construct a replacement fire hall to service the City of Norway and carry an interest rate of 4.75%.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City on any interest payment date at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	15,000	29,521	44,521
2006-2007	16,000	28,785	44,785
2007-2008	17,000	28,001	45,001
2008-2009	18,000	27,170	45,170
2009-2010	19,000	26,291	45,291
2010-ON	<u>544,000</u>	<u>253,460</u>	<u>797,460</u>
TOTALS	\$ 629,000	\$ 393,229	\$ 1,022,229

CITY HALL BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2001 for the demolition, equipping and replacement of the City Hall. Payment of the bonds begin in 2002 and run to 2021, with interest rates varying from 4.5% to 5.2%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE J - LONG TERM DEBT (CONTINUED)

CITY HALL BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	35,000	44,340	79,340
2006-2007	35,000	42,765	77,765
2007-2008	40,000	41,190	81,190
2008-2009	40,000	39,390	79,390
2009-2010	45,000	37,590	82,590
2010-ON	<u>690,000</u>	<u>237,585</u>	<u>927,585</u>
TOTALS	\$ 885,000	\$ 442,860	\$1,327,860

NOTE K - PROPRIETARY FUND LONG TERM DEBT

NORWAY UTILITIES AUTHORITY

The Norway Utilities Authority originally issued \$1,010,000 of bonds which were sold entirely to the Farmers Home Administration (now Rural Development). The proceeds were used to improve, enlarge and extend a sewer disposal system to service the City of Norway and Township of Norway, each constituent members of the Authority. The bonds, dated June 6, 1978, carry an interest rate of 5.0%.

Bonds maturing in the years 1989 to 2018, inclusive, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any interest payment date on or after August 1, 1988, at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	20,000	16,250	36,250
2006-2007	20,000	15,250	35,250
2007-2008	20,000	14,250	34,250
2008-2009	20,000	13,250	33,250
2009-2010	20,000	12,250	32,250
2010-ON	<u>225,000</u>	<u>53,500</u>	<u>278,500</u>
TOTALS	\$ 325,000	\$ 124,750	\$ 449,750

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC UTILITY SYSTEM REVENUE BONDS

In 1982-1983, the City undertook a major construction project which included improvements to their existing electrical utility system. Specifically, this project included the purchase and installation of two 900 kilowatt generating units, transmission lines and auxiliary equipment and the construction of certain concrete structural improvements to the existing hydroelectric facility with an estimated cost of \$2,500,000.

The City initially borrowed \$ 2,290,000 from the Farmers Home Administration, an agency of the United States Government. The bonds were refinanced in 1987 and again in 1994.

The 1994 refinancing was a defeasance with the 1987 bonds being called in 1999. The bonds carry interest rates varying from 3.1% to 5.375%. The bonds are subject to redemption prior to maturity, in inverse order, at the City's option on any interest payment date, at par plus accrued interest to the date fixed for redemption.

The repayment schedule, including interest, will be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	150,000	65,844	215,844
2006-2007	155,000	57,781	212,781
2007-2008	165,000	49,450	214,450
2008-2009	175,000	40,581	215,581
2009-2010	185,000	31,175	216,175
2010-ON	<u>395,000</u>	<u>32,250</u>	<u>427,250</u>
TOTALS	\$1,225,000	\$ 277,081	\$ 1,502,081

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS

The City issued \$995,000 of limited revenue bonds on June 3, 2002, for the updating of the power dam and automation of the plant. Payment of the bonds begin in 2002 and run to 2017, with interest rates varying from 4.3% to 5.15%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	35,000	43,423	78,423
2006-2007	40,000	41,917	81,917
2007-2008	40,000	40,198	80,198
2008-2009	45,000	38,477	83,477
2009-2010	45,000	36,543	81,543
2010-ON	<u>700,000</u>	<u>157,705</u>	<u>857,705</u>
TOTALS	\$ 905,000	\$ 358,263	\$1,263,263

WATER UTILITY SYSTEM REVENUE BONDS

In 1987, the City issued revenue bonds in the amount of \$750,000 for the construction of improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon. During the 1998-1999 year, the bonds were refinanced through the Michigan Municipal Finance Authority. This refinancing reduced the interest to an effective interest rate of 5.012%.

The revised repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	25,000	30,648	55,648
2006-2007	25,000	29,320	54,320
2007-2008	30,000	27,335	57,335
2008-2009	30,000	20,933	50,933
2009-2010	35,000	19,290	54,290
2010-ON	<u>360,000</u>	<u>58,274</u>	<u>418,274</u>
TOTALS	\$ 505,000	\$ 185,800	\$ 690,800

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

WATER UTILITY SYSTEM REVENUE BONDS

In 1997, the City authorized issuance of revenue bonds in the amount of \$3,172,000 for the purpose of making improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund and the entire amount was purchased by Rural Development, an agency of the United States Government. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon.

The repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	42,000	129,285	171,285
2006-2007	44,000	127,350	171,350
2007-2008	46,000	125,325	171,325
2008-2009	48,000	123,210	171,210
2009-2010	50,000	121,005	171,005
2010-ON	<u>2,664,000</u>	<u>1,930,860</u>	<u>4,594,860</u>
TOTALS	\$2,894,000	\$2,557,035	\$ 5,451,035

NOTE L - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables as of June 30, 2005 follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Downtown Development	\$ 19,300
General	Television	63,411
General	Golf	10,890
General	Sewer	196,971

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE M - RISK MANAGEMENT

The City of Norway is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Norway maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE N - RECLASSIFICATION

Certain reclassifications have been made in the 2004 comparative totals to conform to classifications used in 2005.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 757,740	\$ 757,740	\$ 757,740	\$ 0
Resources (Inflows)				
Property taxes	610,038	613,184	612,265	(919)
State shared revenues and grants	357,407	328,550	327,379	(1,171)
Licenses and permits	0	0	0	0
Fines and forfeitures	7,000	5,000	5,225	225
Charges for services	191,394	185,000	183,232	(1,768)
Interest and rentals	150,000	167,000	182,044	15,044
Other	145,670	138,197	71,182	(67,015)
Transfer from other funds	<u>515,091</u>	<u>509,391</u>	<u>509,391</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>2,734,340</u>	\$ <u>2,704,062</u>	\$ <u>2,648,458</u>	\$ <u>(55,604)</u>
Charges to Appropriations (Outflows)				
General Government				
Mayor/Council/Elections	\$ 50,500	\$ 74,474	\$ 75,339	\$ (865)
Administration/Finance/Legal	546,674	534,572	509,398	25,174
Buildings and grounds	15,538	25,478	24,211	1,267
Public Safety				
Police	485,012	476,369	531,079	(54,710)
Fire	100,070	91,936	88,559	3,377
Public Works				
Maintenance	321,416	307,648	272,678	34,970
Refuse	250,334	229,979	221,939	8,040
Parks and Recreation	15,366	20,876	29,462	(8,586)
Capital Outlay	34,300	24,455	20,628	3,827
Transfers to other funds	<u>127,400</u>	<u>127,400</u>	<u>131,845</u>	<u>(4,445)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,946,610</u>	\$ <u>1,913,187</u>	\$ <u>1,905,138</u>	\$ <u>8,049</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>787,730</u>	\$ <u>790,875</u>	\$ <u>743,320</u>	\$ <u>(47,555)</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN DEVELOPMENT AUTHORITY
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 259,944	\$ 259,944	\$ 259,944	\$ 0
Resources (Inflows)				
Property taxes	220,824	209,450	212,687	3,237
Bond proceeds	800,000	950,000	900,000	(50,000)
Interest earned	5,000	4,000	3,217	(783)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 1,285,768	\$ 1,423,394	\$ 1,375,848	\$ (47,546)
Charges to Appropriations (Outflows)				
Contracted services	\$ 0	\$ 11,649	\$ 11,649	\$ 0
Supplies and other	0	1,125	1,124	1
Debt service	152,330	142,330	142,723	(393)
Bond discount and administration	1,250	1,250	1,249	1
Transfers to other funds	<u>882,581</u>	<u>969,300</u>	<u>910,300</u>	<u>59,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,036,161</u>	\$ <u>1,125,654</u>	\$ <u>1,067,045</u>	\$ <u>58,609</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>249,607</u>	\$ <u>297,740</u>	\$ <u>308,803</u>	\$ <u>11,063</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 400,107	\$ 400,107	\$ 400,107	\$ 0
Resources (Inflows)				
Federal grants	70,000	0	0	
State grants	606,875	0	0	
Sale of property	100,000	60,000	55,000	(5,000)
Contributions	2,500	6,555	6,555	0
Interest earned	5,000	12,000	14,832	2,832
Transfers from other funds	<u>857,581</u>	<u>950,000</u>	<u>891,000</u>	<u>(59,000)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 2,042,063	\$ 1,428,662	\$ 1,367,494	\$ (61,168)
Charges to Appropriations (Outflows)				
Capital projects	\$ 1,711,456	\$ 60,524	\$ 57,141	\$ 3,383
Transfers to other funds	<u>50,000</u>	<u>86,100</u>	<u>134,645</u>	<u>(48,545)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,761,456</u>	\$ <u>146,624</u>	\$ <u>191,786</u>	\$ <u>(45,162)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>280,607</u>	\$ <u>1,282,038</u>	\$ <u>1,175,708</u>	\$ <u>(106,330)</u>

CITY OF NORWAY
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2005

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-02	7,107,083	10,567,655	3,460,572	67%	1,401,228	247%
31-Dec-03	7,381,418	11,197,388	3,815,970	66%	1,388,852	275%
31-Dec-04	7,599,829	12,048,755	4,448,926	63%	1,486,599	299%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-02	230,804	100%
31-Dec-03	280,326	100%
31-Dec-04	326,908	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF NORWAY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	MAJOR STREET	LOCAL STREET	MUSEUM	DEBT SERVICE	TOTAL
ASSETS					
Cash and equivalents	\$ 85,006	\$ 123,146	\$ 26,149	\$ 0	\$ 234,301
Investments	0	0	0	0	0
Accounts receivable	0	0	0	0	0
Due from other funds	0	0	0	0	0
Due from other governmental units	44,297	19,655	0	0	63,952
Other assets	0	0	0	0	0
TOTAL ASSETS	\$ 129,303	\$ 142,801	\$ 26,149	\$ 0	\$ 298,253
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	\$ 3,216	\$ 1,600	\$ 2,532	\$ 0	\$ 7,348
Salaries and wages payable	1,170	629	595	0	2,394
Accrued taxes and withholdings	89	48	46	0	183
Accrued interest	0	0	0	0	0
TOTAL LIABILITIES	\$ 4,475	\$ 2,277	\$ 3,173	\$ 0	\$ 9,925
FUND EQUITY					
Fund balance:					
Unreserved-undesignated	\$ 124,828	\$ 140,524	\$ 22,976	\$ 0	\$ 288,328
TOTAL LIABILITIES AND FUND EQUITY	\$ 129,303	\$ 142,801	\$ 26,149	\$ 0	\$ 298,253

CITY OF NORWAY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
Year ended June 30, 2005

	MAJOR STREET	LOCAL STREET	MUSEUM	DEBT SERVICE	TOTAL
REVENUES					
State shared revenues	\$ 249,406	\$ 98,703	\$ 0	\$ 0	\$ 348,109
Property taxes	0	0	0	0	0
Local grant	0	0	0	0	0
Interest earned	562	948	451	0	1,961
Contributions	0	0	6,753	0	6,753
Other	0	0	0	0	0
TOTAL REVENUES	\$ 249,968	\$ 99,651	\$ 7,204	\$ 0	\$ 356,823
EXPENDITURES					
Construction	\$ 54,391	\$ 10,850	\$ 0	\$ 0	\$ 65,241
Maintenance	85,164	59,196	0	0	144,360
Traffic service maintenance	1,789	291	0	0	2,080
Winter maintenance	57,355	33,539	0	0	90,894
Administration and engineering	9,367	9,367	10,729	0	29,463
Debt service	0	0	0	198,649	198,649
Capital outlay	0	0	27,634	0	27,634
TOTAL EXPENDITURES	\$ 208,066	\$ 113,243	\$ 38,363	\$ 198,649	\$ 558,321
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 41,902	\$ (13,592)	\$ (31,159)	\$ (198,649)	\$ (201,498)
OTHER FINANCING SOURCES (USES)					
Transfer from other funds	\$ 41,804	\$ 5,425	\$ 2,000	\$ 198,649	\$ 247,878
Transfer to other funds	0	0	0	0	0
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES	\$ 83,706	\$ (8,167)	\$ (29,159)	\$ 0	\$ 46,380
Fund balance - beginning	41,122	148,691	52,135	0	241,948
FUND BALANCE - ENDING	\$ 124,828	\$ 140,524	\$ 22,976	\$ 0	\$ 288,328

CITY OF NORWAY
ELECTRIC UTILITY FUND
BALANCE SHEET
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 152,287	\$ 0
Accounts receivable	228,225	218,672
Inventory	93,906	61,741
Prepaid expenses	<u>15,323</u>	<u>15,169</u>
TOTAL CURRENT ASSETS	\$ 489,741	\$ 295,582
Restricted Assets:		
Bond reserve account	\$ 213,000	\$ 230,500
Equipment replacement	<u>0</u>	<u>0</u>
TOTAL RESTRICTED ASSETS	\$ 213,000	\$ 230,500
Property, Plant and Equipment:		
Electric system	\$ 11,506,302	\$ 11,310,117
Less accumulated depreciation	<u>(5,047,613)</u>	<u>(4,737,862)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 6,458,689	\$ 6,572,255
Other Asset - Bond discount	\$ <u>158,473</u>	\$ <u>180,389</u>
TOTAL ASSETS	\$ <u>7,319,903</u>	\$ <u>7,278,726</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 81,643	\$ 30,837
Salaries and wages payable	13,647	20,569
Accrued taxes and withholdings	4,882	3,271
Accrued benefits	40,383	59,556
Sales tax payable	6,313	5,837
Due to other funds	0	193,368
Customer deposits	49,659	38,674
Accrued interest	31,053	34,314
Current portion of long term debt	<u>185,000</u>	<u>175,000</u>
TOTAL CURRENT LIABILITIES	\$ 412,580	\$ 561,426
Long Term Debt - Revenue bonds payable	<u>1,945,000</u>	<u>2,130,000</u>
TOTAL LIABILITIES	\$ 2,357,580	\$ 2,691,426
FUND EQUITY		
Retained earnings:		
Reserved	\$ 213,000	\$ 230,500
Unreserved	<u>4,749,323</u>	<u>4,356,800</u>
TOTAL FUND EQUITY	\$ <u>4,962,323</u>	\$ <u>4,587,300</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>7,319,903</u>	\$ <u>7,278,726</u>

CITY OF NORWAY
ELECTRIC UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
User charges	\$ 2,312,855	\$ 2,136,423
Reimbursements	<u>29,369</u>	<u>143,401</u>
TOTAL OPERATING REVENUES	\$ 2,342,224	\$ 2,279,824
OPERATING EXPENSES		
Generation, distribution and maintenance	\$ 1,346,878	\$ 1,322,869
Depreciation	<u>309,751</u>	<u>303,694</u>
TOTAL OPERATING EXPENSES	\$ 1,656,629	\$ 1,626,563
OPERATING INCOME	\$ 685,595	\$ 653,261
NON-OPERATING GAINS (LOSSES)		
Interest income	\$ 1,379	\$ 2,392
Bond interest payments	(115,035)	(123,219)
Bond discount amortization	(21,916)	(21,918)
Transfer from other funds	11,676	0
Transfer to other funds	<u>(186,676)</u>	<u>(103,858)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ (310,572)	\$ (246,603)
NET INCOME	\$ 375,023	\$ 406,658
Retained earnings - beginning	<u>4,587,300</u>	<u>4,180,642</u>
RETAINED EARNINGS - ENDING	\$ <u>4,962,323</u>	\$ <u>4,587,300</u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
ELECTRIC UTILITY FUND
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,303,302	\$ 2,085,644
Insurance proceeds	29,369	143,401
Payments to suppliers	(688,797)	(717,391)
Payments to or on behalf of employees	<u>(655,878)</u>	<u>(736,672)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 987,996	\$ 774,982
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	\$ (175,000)	\$ (103,858)
Loans from other funds	<u>(193,368)</u>	<u>193,368</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (368,368)	\$ 89,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (290,035)	\$ (288,219)
Purchases of capital assets	(196,185)	(518,399)
Funding of restricted accounts	<u>17,500</u>	<u>(230,500)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (468,720)	\$ (1,037,118)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>1,379</u>	\$ <u>2,392</u>
NET INCREASE (DECREASE) IN CASH	\$ 152,287	\$ (170,234)
Cash and equivalents - beginning	<u>0</u>	<u>170,234</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>152,287</u>	\$ <u>0</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 685,595	\$ 653,261
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	309,751	303,694
Change in Assets and Liabilities		
Receivables - net	(9,553)	(50,779)
Inventory	(32,165)	(61,741)
Prepaid expenses	(154)	136
Accounts payable	50,806	(56,776)
Accrued payroll expense	(6,922)	2,358
Accrued taxes and withholdings	1,611	1,878
Accrued sales tax	476	1,689
Accrued benefits	(19,173)	(14,789)
Accrued interest	(3,261)	(2,780)
Customer deposits	<u>10,985</u>	<u>(1,169)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>987,996</u>	\$ <u>774,982</u>

CITY OF NORWAY
ELECTRIC UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Generation, Distribution & Maintenance:		
Salaries and wages	\$ 378,751	\$ 460,107
Employee benefits	271,816	280,801
Supplies and other	<u>696,311</u>	<u>581,961</u>
TOTAL GENERATION, DISTRIBUTION AND MAINTENANCE	\$ 1,346,878	\$ 1,322,869
Depreciation	<u>309,751</u>	<u>303,694</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,656,629</u>	<u>\$ 1,626,563</u>

CITY OF NORWAY
WATER UTILITY FUND
BALANCE SHEET
June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and equivalents	\$ 0	\$ 4,517
Accounts receivable	61,809	59,861
Inventory	29,773	28,773
Prepaid expenses	3,543	3,727
	<u>95,125</u>	<u>96,878</u>
TOTAL CURRENT ASSETS	\$ 95,125	\$ 96,878
Restricted Assets:		
Revenue bond and interest redemption	\$ 43,336	\$ 43,336
Water supply replacement fund	107,675	107,675
Water supply improvement fund	82,201	107,557
Bond reserve - junior indenture	138,400	121,100
	<u>371,612</u>	<u>379,668</u>
TOTAL RESTRICTED ASSETS	\$ 371,612	\$ 379,668
Property, Plant and Equipment:		
Water system	\$ 6,014,498	\$ 6,014,498
Less accumulated depreciation	<u>(1,794,369)</u>	<u>(1,650,402)</u>
	<u>4,220,129</u>	<u>4,364,096</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 4,220,129	\$ 4,364,096
Other Asset - Bond discount	\$ 4,106	\$ 4,448
	<u>4,690,972</u>	<u>4,845,090</u>
TOTAL ASSETS	\$ 4,690,972	\$ 4,845,090
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 9,628	\$ 2,935
Salaries and wages payable	7,107	5,725
Accrued taxes and withholdings	936	438
Accrued benefits	5,132	13,388
Accrued interest	27,994	28,294
Current portion of long term debt	67,000	65,000
	<u>117,797</u>	<u>115,780</u>
TOTAL CURRENT LIABILITIES	\$ 117,797	\$ 115,780
Long Term Debt - Revenue bonds payable	<u>3,332,000</u>	<u>3,399,000</u>
	<u>3,449,797</u>	<u>3,514,780</u>
TOTAL LIABILITIES	\$ 3,449,797	\$ 3,514,780
FUND EQUITY		
Contributed capital:		
Municipality	\$ 59,520	\$ 59,520
Federal government	156,491	166,697
	<u>216,011</u>	<u>226,217</u>
TOTAL CONTRIBUTED CAPITAL	\$ 216,011	\$ 226,217
Retained earnings:		
Reserved	\$ 371,612	\$ 379,668
Unreserved	653,552	724,425
	<u>1,025,164</u>	<u>1,104,093</u>
TOTAL RETAINED EARNINGS	\$ 1,025,164	\$ 1,104,093
TOTAL FUND EQUITY	\$ 1,241,175	\$ 1,330,310
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,690,972	\$ 4,845,090

CITY OF NORWAY
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
User charges	\$ 604,158	\$ 598,206
State grants	7,593	0
Hydrant rentals	<u>33,000</u>	<u>33,000</u>
TOTAL OPERATING REVENUES	\$ 644,751	\$ 631,206
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 329,214	\$ 258,484
Depreciation	<u>133,762</u>	<u>137,201</u>
TOTAL OPERATING EXPENSES	\$ 462,976	\$ 395,685
OPERATING INCOME	\$ 181,775	\$ 235,521
NON-OPERATING GAINS (LOSSES)		
Interest	\$ 2,354	\$ 2,775
Bond interest payments	(162,858)	(165,732)
Bond discount amortization	(342)	(342)
Transfer from other funds	9,196	20,000
Transfer to other funds	<u>(109,054)</u>	<u>(111,649)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ (260,704)	\$ (254,948)
NET INCOME	\$ (78,929)	\$ (19,427)
Retained earnings - beginning	<u>1,104,093</u>	<u>1,123,520</u>
RETAINED EARNINGS - ENDING	\$ <u>1,025,164</u>	\$ <u>1,104,093</u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
WATER UTILITY FUND
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 642,803	\$ 629,924
Payments to suppliers	(132,405)	(170,817)
Payments to or on behalf of employees	<u>(197,608)</u>	<u>(167,914)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 312,790	\$ 291,193
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	\$ (99,858)	\$ (91,649)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (227,858)	\$ (224,732)
Purchases of capital assets	0	(23,582)
Funding of restricted accounts	<u>8,055</u>	<u>(35,300)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (219,803)	\$ (283,614)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>2,354</u>	\$ <u>2,775</u>
NET INCREASE (DECREASE) IN CASH	\$ (4,517)	\$ (81,295)
Cash and equivalents - beginning	<u>4,517</u>	<u>85,812</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>0</u>	\$ <u>4,517</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 181,775	\$ 235,521
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	133,762	137,201
Change in Assets and Liabilities		
Receivables - net	(1,948)	(1,282)
Inventory	(1,000)	(28,773)
Prepaid expenses	184	(1,012)
Accounts payable	6,693	(40,827)
Accrued payroll expense	1,382	277
Accrued taxes and withholdings	498	22
Accrued benefits	(8,256)	(9,450)
Accrued interest	<u>(300)</u>	<u>(484)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>312,790</u>	\$ <u>291,193</u>

CITY OF NORWAY
WATER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 108,519	\$ 100,863
Employee benefits	90,969	67,350
Supplies and other	<u>129,726</u>	<u>90,271</u>
 TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	 \$ 329,214	 \$ 258,484
Depreciation	<u>133,762</u>	<u>137,201</u>
 TOTAL OPERATING EXPENSES	 \$ <u><u>462,976</u></u>	 \$ <u><u>395,685</u></u>

CITY OF NORWAY
SEWER UTILITY FUND
BALANCE SHEET
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable	48,043	46,021
Inventory	8,189	5,605
Prepaid expenses	<u>5,006</u>	<u>3,930</u>
TOTAL CURRENT ASSETS	\$ 61,238	\$ 55,556
Restricted Assets - bond reserve account	\$ 15,735	\$ 15,735
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 2,018,474	\$ 2,017,306
Less accumulated depreciation	<u>(819,188)</u>	<u>(755,355)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 1,199,286	\$ 1,261,951
TOTAL ASSETS	\$ <u>1,276,259</u>	\$ <u>1,333,242</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 5,979	\$ 8,307
Salaries and wages payable	7,793	7,557
Accrued taxes and withholdings	2,318	578
Due to other funds	196,971	119,929
Accrued benefits	22,507	24,499
Current portion of long term debt	<u>12,280</u>	<u>9,210</u>
TOTAL CURRENT LIABILITIES	\$ 247,848	\$ 170,080
Long Term Debt - Revenue bonds payable	\$ <u>187,270</u>	\$ <u>199,550</u>
TOTAL LIABILITIES	\$ 435,118	\$ 369,630
FUND EQUITY		
Contributed capital		
Municipality	\$ 78,000	\$ 78,000
Federal government	<u>256,959</u>	<u>268,153</u>
TOTAL CONTRIBUTED CAPITAL	\$ 334,959	\$ 346,153
Retained earnings:		
Reserved	\$ 15,735	\$ 15,735
Unrestricted, undesignated	<u>490,447</u>	<u>601,724</u>
TOTAL RETAINED EARNINGS	\$ 506,182	\$ 617,459
TOTAL FUND EQUITY	\$ <u>841,141</u>	\$ <u>963,612</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>1,276,259</u>	\$ <u>1,333,242</u>

CITY OF NORWAY
SEWER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
User charges	\$ 470,519	\$ 500,193
Reimbursement	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 470,519	\$ 500,193
 OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 435,719	\$ 349,644
Depreciation	<u>52,638</u>	<u>32,989</u>
TOTAL OPERATING EXPENSES	\$ 488,357	\$ 382,633
 OPERATING INCOME	\$ (17,838)	\$ 117,560
 NON-OPERATING GAINS (LOSSES)		
Interest earned	\$ 0	\$ 0
Bond interest and fee payments	(10,668)	(11,129)
Transfers from other funds	20,988	0
Transfers (to) other funds	<u>(103,759)</u>	<u>(53,605)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ (93,439)	\$ (64,734)
 NET INCOME	\$ (111,277)	\$ 52,826
 Retained earnings - beginning	<u>617,459</u>	<u>564,633</u>
 RETAINED EARNINGS - ENDING	\$ <u>506,182</u>	\$ <u>617,459</u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
SEWER UTILITY FUND
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 468,497	\$ 508,764
Payments to suppliers	(185,883)	(149,112)
Payments to or on behalf of employees	<u>(255,841)</u>	<u>(200,114)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 26,773	\$ 159,538
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer (to) other funds	\$ (82,771)	\$ (53,605)
Loans received from (repaid to) other funds	<u>77,042</u>	<u>(33,743)</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (5,729)	\$ (87,348)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal, interest and fees paid on capital debt	\$ (19,878)	\$ (20,339)
Purchases of capital assets	<u>(1,166)</u>	<u>(51,851)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (21,044)	\$ (72,190)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>0</u>	\$ <u>0</u>
NET INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
Cash and equivalents - beginning	<u>0</u>	<u>0</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>0</u>	\$ <u>0</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ (17,838)	\$ 117,560
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	52,638	32,989
Change in Assets and Liabilities		
Receivables - net	(2,022)	8,571
Inventory	(2,584)	(5,605)
Prepaid expenses	(1,076)	(956)
Accounts payable	(2,328)	938
Accrued payroll expense	236	2,442
Accrued taxes and withholdings	1,739	187
Accrued benefits	<u>(1,992)</u>	<u>3,412</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>26,773</u>	\$ <u>159,538</u>

CITY OF NORWAY
SEWER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 159,560	\$ 134,320
Employee benefits	98,256	68,423
Supplies and other	<u>177,903</u>	<u>146,901</u>
TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	\$ 435,719	\$ 349,644
Depreciation	<u>52,638</u>	<u>32,989</u>
TOTALS	<u>\$ 488,357</u>	<u>\$ 382,633</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 41,122	\$ 41,122	\$ 41,122	\$ 0
Resources (Inflows)				
Federal grants	5,000	500	0	(500)
State shared revenues and grants	236,300	255,447	249,406	(6,041)
Interest earned	0	0	562	562
Transfers from other funds	<u>0</u>	<u>0</u>	<u>41,804</u>	<u>41,804</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 282,422	\$ 297,069	\$ 332,894	\$ 35,825
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 54,391	\$ (54,391)
Route maintenance	38,898	45,379	76,370	(30,991)
Traffic services	2,727	2,564	1,789	775
Winter maintenance	48,898	51,326	57,355	(6,029)
Administration	9,367	9,367	9,367	0
Trunkline maintenance	8,090	8,934	8,794	140
Transfers to other funds	<u>130,000</u>	<u>15,000</u>	<u>0</u>	<u>15,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>237,980</u>	\$ <u>132,570</u>	\$ <u>208,066</u>	\$ <u>(75,496)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>44,442</u>	\$ <u>164,499</u>	\$ <u>124,828</u>	\$ <u>(39,671)</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 148,691	\$ 148,691	\$ 148,691	\$ 0
Resources (Inflows)				
State shared revenues and grants	102,350	104,261	98,703	(5,558)
Interest earned	4,000	1,000	948	(52)
Transfers from other funds	<u>100,000</u>	<u>0</u>	<u>5,425</u>	<u>5,425</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 355,041	\$ 253,952	\$ 253,767	\$ (185)
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 10,850	\$ (10,850)
Route maintenance	27,265	34,692	59,196	(24,504)
Traffic services	1,827	1,064	291	773
Winter maintenance	34,265	29,952	33,539	(3,587)
Administration	9,367	9,367	9,367	0
Transfers to other funds	<u>130,000</u>	<u>10,000</u>	<u>0</u>	<u>10,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>202,724</u>	\$ <u>85,075</u>	\$ <u>113,243</u>	\$ <u>(28,168)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>152,317</u>	\$ <u>168,877</u>	\$ <u>140,524</u>	\$ <u>(28,353)</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MUSEUM FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 52,135	\$ 52,135	\$ 52,135	\$ 0
Resources (Inflows)				
Local grant	2,000	0	0	
Sale of property	0	0	0	0
Contributions	5,000	5,422	6,753	1,331
Interest earned	1,000	500	451	(49)
Transfers from other funds	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 62,135	\$ 60,057	\$ 61,339	\$ 1,282
Charges to Appropriations (Outflows)				
Administration	\$ 7,143	\$ 11,417	\$ 10,729	\$ 688
Capital projects	<u>1,000</u>	<u>25,000</u>	<u>27,634</u>	<u>(2,634)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>8,143</u>	\$ <u>36,417</u>	\$ <u>38,363</u>	\$ <u>(1,946)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>53,992</u>	\$ <u>23,640</u>	\$ <u>22,976</u>	\$ <u>(664)</u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	0
Resources (Inflows)				
Contribution from Oak Crest Golf Club, Inc.	73,250	73,250	73,249	(1)
Transfers from other funds	<u>125,400</u>	<u>125,400</u>	<u>125,400</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 198,650	\$ 198,650	\$ 198,649	(1)
Charges to Appropriations (Outflows)				
Debt service	\$ <u>198,650</u>	\$ <u>198,650</u>	\$ <u>198,649</u>	<u>1</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>198,650</u>	\$ <u>198,650</u>	\$ <u>198,649</u>	<u>1</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	<u>0</u>

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) as of and for the year ended June 30, 2005, which collectively comprise the City of Norway, Michigan's basic financial statements and have issued my report thereon dated October 6, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted one matter involving the internal control over financial reporting and its operation that I consider to be a material weakness. The receipts/revenue system utilized at the Oak Crest Golf Course does not provide assurance that all monies received are eventually passed to the City Treasurer for deposit. Additionally, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated October 6, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

October 6, 2005

SCOTT R. KENNEY

Certified Public Accountant

1374 Commercial Ave., Suite #1
Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

In conjunction with the audit of the financial statements of the City of Norway as of and for the year ended June 30, 2005, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Norway's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior year.

1. **OBSERVATION** - The City has not adopted a capitalization policy for equipment and/or capital projects. This policy would assist management in properly classifying expenditures into the correct accounts.

RECOMMENDATION - I strongly recommend that the City adopt a formal capitalization policy. Fixed assets with an expected useful life of more than one year and a cost of \$1,000 or more should be capitalized. This policy then needs to be forwarded to department heads for their implementation. In addition, budgets should be reviewed and amended as required utilizing the newly implemented policy.

2. **OBSERVATION** - The Golf Commission and City has repeatedly changed the income sharing agreement over the past several years. The Golf Fund of the City yielded a net loss for the year just ended while the component unit (Golf Commission) has a small net income.

RECOMMENDATION - I recommend that the agreement be updated, approved and put in writing. I further recommend that income be split so that both the Golf Fund and Commission reflect a profit.

3. **OBSERVATION** - The compensation arrangement of employees are approved by the Council during the labor contract approval process. Non-contract employees (summer staff) are approved only during the budget approval process.

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3. **RECOMMENDATION** - I recommend that the Council approve all non-contract pay scales by separate action and not only during the annual budget process.
4. **OBSERVATION** - Physical inventories were not taken at the end of the fiscal year as required to properly close the financial records. Post closing physical inventories were requested of all applicable departments with most of them being completed and reflected in the financial statements.

RECOMMENDATION - I recommend that physical inventories be taken and valued as part of the regular financial record closing process. Subsequent to year end, management implemented procedures to assure that the inventory task will be timely completed in future periods.

I do not believe that a physical inventory was taken in either the fire department or the water department as directed by management. My belief is attributable to the statement that the inventory in the fire department was "no change" while the financial records reflected some significant additions and an inventory observation error rate of more than 80%. The financial records in those departments were conservatively valued using available financial information.

5. **OBSERVATION** - Internal equipment rentals are used to recover costs from the State on the trunklines for which the City is providing maintenance services. In addition, rentals are assigned to other major and local streets to properly capture costs necessary for the care of those streets. The assignment and summarization of those costs contained multiple errors resulting in costs being improperly assigned and reimbursement for trunkline maintenance being shorted.

RECOMMENDATION - I recommend that the process of recording time be reviewed with the employees, stressing the importance of accuracy. In addition, the recording of the rental hours and costs be checked for reasonableness and completeness during the summarization process.

6. **OBSERVATION** - The City has not adopted a credit card policy in conformance with state statute.

RECOMMENDATION - I recommend that the City adopt a credit card policy and update it periodically as necessary.

Subsequent to year end, management began preparing a policy for recommendation of adoption by the City Council.

7. **OBSERVATION** - A loss was incurred in the Sewer Fund during the year before deducting outgoing transfers. This is partially attributable to the elimination of minimum charges during the 2003-2004 which resulted in a reduction in revenues.

7. **RECOMMENDATION** - I recommend that costs and revenues be evaluated within the Sewer Fund and rates be increased as necessary. The adjustment should be adequate to create both profit and positive cash flow.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Ray, Mary, the office staff and the department heads for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

October 6, 2005